Annual Report 1976

indusmin limited

indusmin limited

Year in Brief

(Fiscal Year ended December 31)

	1976	1975
Net Sales (x 1000)		
Industrial Minerals Division	$17,169	$14,045
Construction Materials Division	4,278	4,009
Foundry Division	17,581	4,209
Inter-company sales	(197)	—
Total	$38,831	$22,263
Earnings (x 1000)		
Income before taxes	$ 4,391	$ 3,364
Taxes	1,524	1,379
Net income before minority interest	$ 2,867	$ 1,985
Minority interest	21	—
Net income before extraordinary item	$ 2,846	$ 1,985
% of Sales	7.3%	8.9%
Extraordinary item	163	(68)
Net earnings	$ 3,009	$ 1,917
Financial Position (x 1000)		
Cash flow	$ 5,914	$ 4,707
Working capital	$ 3,908	$ 3,589
Shareholders' equity	$18,524	$16,562
Return on equity	16.2%	11.6%
Total assets	$33,100	$26,054
Shares issued	1,167,901	1,167,901
Shareholders	2,639	2,712
Employees	950	535
Per Common Share		
Quarterly earnings (loss)		
First	$ 0.13	$(0.05)
Second	0.83	0.30
Third	0.93	0.56
Fourth	0.60	0.83
Net earnings	$ 2.49	$ 1.64
Cash flow	$ 5.06	$ 4.03
Dividends paid	$ 0.81	$ 0.75
Shareholders' equity	$15.86	$14.18

The Annual Meeting of the Shareholders of Indusmin Limited will be held in the Library, at the Royal York Hotel, 100 Front Street West, Toronto on Thursday, April 7th, 1977 at the hour of 2:30 o'clock in the afternoon.

For your information a copy of Fahramet's new corporate brochure has been included in the 1976 Indusmin Annual Report.

Highlights

Consolidated sales and net earnings of the Company were at an all-time high in 1976. This reflects completion of the acquisition, which commenced in mid-1975, of the foundry operations and inclusion, for the first time, of their financial results for the full year. In addition, sales and earnings were increased by the exceptionally strong performance of the Industrial Minerals Division.

Earnings per common share, before extraordinary item, were $2.35 compared with $1.70 the previous year. Sales at $38,831,000 were 74.4 per cent greater than the $22,263,000 of 1975.

The Foundry Division, in direct comparison on a consolidated basis, did not achieve the impressive results of 1975, an outstanding year for the industry and difficult to equal. Sales in this Division and in the Construction Materials Division were depressed; however, profits were maintained at satisfactory levels through strict cost control procedures.

Industrial Minerals

During the year, expansion of the secondary milling plant at Nephton was completed. This project had been delayed in 1975 due to the recession in the United States. Production capacity for finely ground extender pigment and filler grades is now sufficient to meet the increasing demands of the paint and plastics industries.

Early in 1976 production interruptions at St. Canut, due to severe winter conditions, plagued the operations and disrupted delivery schedules. This situation will be alleviated by the recently completed installation of additional finished product storage capacity. A second measure, to add ore drying capacity, is under study.

Construction Materials

The depressed capital investment market led to decreased activity in Ontario's construction industry which, in turn, had a negative effect on the market for aggregates. Management responded positively to the lower sales levels with important cost savings and was able to maintain satisfactory profit levels.

Foundry

At Fahramet Limited the first phase of a major modernization and expansion program was completed. This is a semi-production pilot line to be utilized for development of capabilities in resin-bonded "No-Bake" methods of moulding. Results from this research will be used as a guide in the design of a new foundry which will form part of the major modernization and expansion program announced in 1975.

Corporate

In July 1975, Indusmin initiated a diversification program which, at the beginning of 1976, resulted in the corporate reorganization and consolidation of the two Fahralloy companies as a wholly-owned subsidiary, Fahramet Limited.

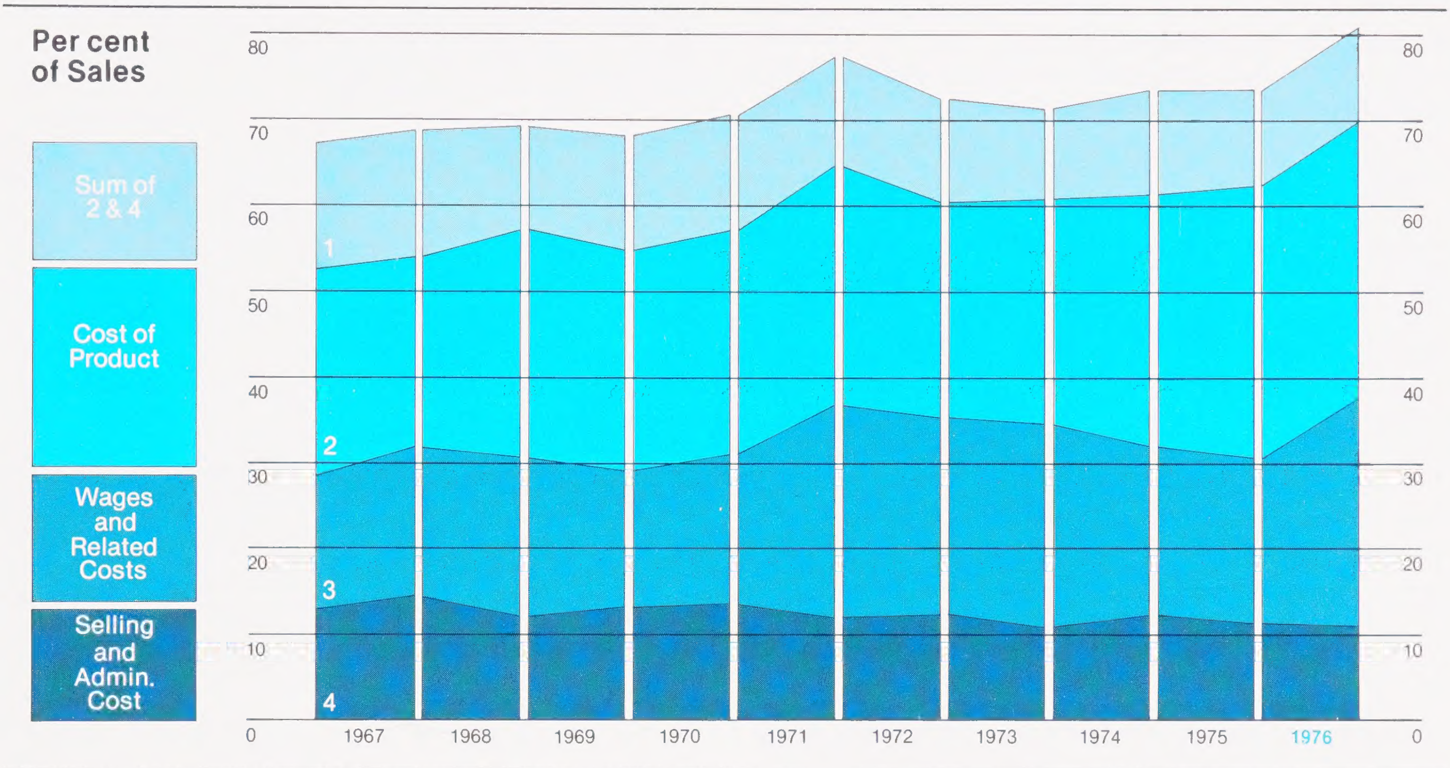
Acquisition of Fahralloy-Wisconsin Limited in 1975, for approximately $1.9 million cash, represented the first phase of this program. Subsequently, as of January 1, 1976, Fahralloy-Wisconsin Limited acquired the business and assets of Fahralloy Canada Limited. The resultant company was renamed Fahramet Limited.

The purchase price for the net assets of Fahralloy Canada was $5.8 million, consisting of $5,564,000 cash and 2,360 Class A preference shares of Fahramet, par value $100 each. The cash was provided by the sale to Indusmin of 55,640 Class B preference shares, par value $100 each.

To provide a part of the cash required to purchase the Fahramet Class B preference shares, Indusmin issued, in April, 1976, 17,640 of the 20,000 preferred shares, par value $100 each, created and sanctioned by the shareholders at the 1976 Annual Meeting. In December, the remaining 2,360 of these Indusmin preferred shares were issued and, immediately thereafter, the entire issue of 20,000 shares was redeemed at par value.

On September 16, 1976 Mr. J.D. Krane, Director Corporate Affairs and Secretary, Falconbridge Nickel Mines Limited and Mr. C.M. Woodruff, Senior Vice-President, Indusmin Limited, were elected to the Board. The new Directors filled vacancies created by the resignations of Mr. J.K. Godin, on his acceptance of an appointment with the Workmen's Compensation Board of Ontario, and Mr. G.T.N. Woodrooffe, on his retirement as Vice-President Corporate Affairs and Secretary, Falconbridge Nickel Mines Limited. Their contributions to the Company as members of the Board are gratefully acknowledged.

On December 20, 1976 Mr. C.M. Woodruff was appointed by the Board to the position of Executive Vice-President responsible for the operations of both Indusmin and Fahramet.



Earnings

The consolidated earnings for the year were $3,009,000, or $2.49 per common share. This compares with 1975 earnings of $1,917,000, or $1.64 per common share.

Ontario Silica operations, for the first time, provided a significant contribution to earnings, after allowance for depreciation. Quebec Silica operations overcame serious production difficulties during the first quarter of the year and were able to maintain past levels of earnings. Nepheline Syenite operations achieved record results.

Although sales were depressed and operating costs escalated, the Construction Materials Division reached its forecast contribution to earnings. This resulted from productivity gains and improved operating efficiency.

The results of the Foundry Division were below plan but represented a commendable achievement in the face of sharply declining order bookings and shipments. This was accomplished concurrent with a major program of plant clean-up, environmental control improvement, and equipment repair. Fahramet net earnings contributed 87 cents per share to total Indusmin earnings.

Financial Review

Sales	1976	1975	Change
	(x 1000)		
Indusmin	$21,447	$18,054	+18.8%
Fahramet	17,581	4,209*	N/A
Inter-company sales	(197)	—	
	$38,831	$22,263	+74.4%

* 6 months' results of Fahralloy-Wisconsin

Distribution of Sales Revenue ($1000)

	1976	1975
Wages and related costs	$14,845 (38.3%)	$6,769 (30.4%)
Materials, supplies and services	17,037 (43.9%)	9,912 (44.5%)
Write-offs	2,395 (6.2%)	2,286 (10.3%)
Taxes	1,524 (3.9%)	1,378 (6.2%)
Minority interest	21	—
Profits	3,009 (7.7%)	1,917 (8.6%)

Capital Spending

Indusmin capital spending was on plan. The capital spending program planned for Fahramet was reduced by 31 per cent to $858,000 when it became apparent that order bookings were insufficient to sustain projected sales for the year.

Total Capital Expenses (x 1000)

	1976	1975
for increased capacity	$ 844	$ 740
for replacement & plant modernization	1,018	628
for no-bake project	429	—
for environmental control	171	225
for miscellaneous	91	16
	$2,553*	$1,609

* Does not include fixed assets purchased from Fahralloy Canada Ltd.

Ratios

	1976	1975
expenditures/write-offs	106.5%	72.6%
expenditures/cash recovery	43.2%	34.2%

In 1977 it is projected that total capital spending will be $2,146,000, with the Foundry Division accounting for $546,000 or 25 per cent of the total.

Dividends

Two dividends were paid in 1976 totalling 81 cents per share. An extra dividend of 31 cents, an increase over the 25-cent extra dividend in 1975, was paid in addition to the regular dividend in December. This increase was in accordance with Anti-Inflation Board regulations.

Date of Record	Date Paid	Per Share
June 3, 1976	June 25, 1976	$0.25
November 26, 1976	December 15, 1976	$0.25 + $0.31 extra

Write-Offs

Write-offs for depreciation, depletion and development expenses amounted to $2,395,000 equal to 40.5 per cent of cash flow compared with 47.1 per cent in 1975.

Cash Recovery from Operations

Cash recovered from operations amounted to $5,914,000 ($5.06 per share) versus $4,707,000 ($4.03 per share) in 1975. Of this total Fahramet contributed $1,479,000 ($1.27 per share).

Accounts Receivable

Accounts receivable increased from the 1975 level of $6,197,000 to $7,428,000 due to the acquisition of the remaining Fahralloy operations. This represents 17 per cent of 1976 billings versus 23 per cent in 1975.

Preferred Shares

The shareholders at the last annual meeting of Indusmin sanctioned By-Law Number Four creating an issue of 20,000 8.9% cumulative redeemable preferred shares having a par value of $100 each. These shares were issued to Falconbridge Nickel Mines Limited and the proceeds were used to extinguish obligations assumed in connection with the acquisition of the assets of Fahralloy Canada Limited. Prior to the year end, all of the preferred shares were redeemed.

Bank Loan

Bank advances increased during the year by $3,430,000 and at year end amounted to $7,793,000.

Operations

Industrial Minerals Division

R. Lavertu, Vice-President

Shipments of Nepheline Syenite and Silica increased substantially over 1975 and established record sales revenue in the Industrial Minerals Division. Sales gains of Nepheline Syenite were significantly stronger in the United States reflecting the more rapid economic recovery in that country than in Canada. Ontario Silica sales gains consisted primarily of lump quartzite sales to the ferrosilicon market in the United States.

	1976	1975	Change
Total Sales (x 1000)	$17,169	$14,045	+22.2%
% of total corporate	44.2%	63.1%	
Capital Expenditures (x 1000)	$ 1,332	$ 1,149	

Ore reserves, proven by diamond drilling, were at year end 1976:

	Tons	Years Supply (approx.)
Nepheline Syenite	21 million	40
Quebec Silica	14 million	25
Ontario Silica	15 million	30

Nepheline Syenite

Product applications: alumina source for container, sheet, and fibre glass; flux for ceramic whitewares; extender pigment and filler for paints, plastics, and latex foam rubber.

Strong sales growth to the paint and fibre glass markets led the increase in sales in 1976. Growth was greatest in the United States.

Capital expenditures of $600,000 are planned for 1977.

The collective bargaining agreement expired in October 1976 and a new two-year agreement was reached. Application has been made for A.I.B. approval.

	1976	1975	Change
Sales Revenue	$ 7,238,000	$ 5,829,000	+24.2%
Tons	388,000	314,000	+23.6%
Capital Expenditures	$ 635,000	$ 572,000	
Ore Reserves, tons	21,251,000	20,755,000	

MANAGEMENT:
G.H. Taylor, Mine Manager
W.B. Midgette, General Sales Manager

PLANT LOCATION:
Nephton, Ontario

Quebec Silica

Product applications: high purity silica for container, sheet, and fibre glass; silicon carbide abrasive grain; autoclave concrete and asbestos-concrete products; construction sands and flour; abrasive sands; ceramics and foundry.

Sales tonnage gains were primarily to the fibre glass and silicon carbide industries.

Production facilities are at near capacity and any significant gains in tonnage will require a major expansion.

Planned capital expenditures in 1977 of $400,000 will be confined to replacement and environmental control.

The two collective bargaining agreements in force expired in 1976, in January at St. Canut and in July at St. Donat. Both were renegotiated successfully for two-year periods and subsequently received A.I.B. approval.

	1976	1975	Change
Sales Revenue	$ 5,581,000	$ 4,694,000	+18.9%
Tons	428,000	406,000	+ 5.4%
Capital Expenditures	$ 450,000	$ 159,000	
Ore Reserves, tons	13,922,000	8,857,000	

MANAGEMENT:
A.A. Bois, Mine Manager
J.R. Levert, Sales Manager
W.B. Midgette, General Sales Manager

PLANT LOCATIONS:
St. Canut, and St. Donat, Quebec

Ontario Silica

Product applications; high purity silica for container and sheet glass; autoclave concrete and asbestos-concrete products; ferrosilicon production; sands and flour; and ceramics.

Growth in sales of lump quartzite to the ferrosilicon market in the United States contributed the largest gains. Improvements were achieved in the recovery of sand and thereby a reduction of the quantity of fines produced in the Midland plant was gained. Additional processing changes were made to increase sand recovery, the effect of which is expected to show in increased sales and profitability improvement in 1977.

Capital expenditures planned for 1977 are a modest $95,000.

Of the two collective bargaining agreements, only Midland's expired during the year, in April. The one-year settlement negotiated was reduced by the A.I.B. from an increase of 19.5 per cent to 15 per cent. The Badgeley Island agreement expires in April, 1977.

	1976	1975	Change
Sales Revenue	$ 4,350,000	$ 3,522,000	+23.5%
Tons	460,000	396,000	+16.1%
Capital Expenditures	$ 247,000	$ 418,000	
Ore Reserves, tons	14,710,000	15,283,000	

MANAGEMENT:
A.K. Campbell, Mine Manager
J.R. Levert, Sales Manager
W.B. Midgette, General Sales Manager

PLANT LOCATIONS:
Badgeley Island, and Midland, Ontario

This is a photograph used in one of a series of Indusmin advertisements to illustrate the important relationship between the ore and the end use.

Construction Materials Division

J.L. Caylor, Vice-President

Crushed limestone construction aggregates are produced at two locations, Acton and Halton, and are distributed in the Toronto/Hamilton region for applications in road construction, concrete ready-mix, building blocks and brick; asphalt; water mains and sewer lines.

As a result of a diamond drilling program in 1976, ore reserves were substantially increased to a total of 124 million tons representing approximately 50 years supply at Acton and 35 years at Halton.

Sales of aggregates, the Division's only product, are dependent on construction activity in the Toronto/Hamilton area which, in 1976, continued at the depressed levels of 1975. A strike at a competitor's operation lasted through most of the busy season and was continuing at year end. This had a positive effect on sales volume.

Capital expenditures of $425,000 for Acton and $75,000 for Halton are planned for 1977.

The Acton collective bargaining agreement expired in October. A new agreement was reached and was submitted to the A.I.B. for approval. An increase at Halton, (a non-union location) to elevate wages to Acton levels, effective January 1976, was approved by the A.I.B.

Independent truckers servicing both Acton and Halton, as well as operations of competitors, have applied to the Ontario Labour Relations Board for certification.

	1976	1975	Change
Sales Revenue	$ 4,278,000	$ 4,009,000	+6.7%
% of total corporate	11.0%	18.0%	
Tons	2,310,000	2,271,000	+1.7%
Capital Expenditures			
Acton	$ 245,000	$ 390,000	
Halton	$ 80,000	25,000	
Ore Reserves, tons			
Acton	99,600,000	65,800,000	
Halton	24,100,000	13,600,000	

MANAGEMENT:
D.L. Murdy, Mine Manager
A.H. Morrison, Sales Manager

PLANT LOCATIONS:
Acton and Milton (Halton), Ontario

DISTRIBUTION YARDS:
Scarborough and Pinecrest, Ontario

Foundry Division (Fahramet Limited)

N.A. Dobbie, Executive Vice-President

1976 represented the first full year of operation of the Foundry Division, Fahramet Limited. While sales of $17,581,000 could be viewed as an achievement in the face of the seriously lagging recovery of the Canadian economy, this nevertheless represented a disappointing reduction in sales of 25 per cent from the 1975 level.

	1976	1975*	Change
Total Sales (x 1000)	$17,581	$23,238	-25%
% of total corporate	45.3%	N/A	
Capital Expenditures (x 1000)	$ 858	$ 280	

* Combined full year results of Fahralloy Canada and Fahralloy-Wisconsin for comparison purposes.

Sand Casting

K. Ogris, Vice-President

This Division carries out the former operations of Fahralloy Canada Limited. Products are steel castings used in abrasion, heat, and corrosion resistant applications by a variety of industries, including mining, primary steel, cement, and industrial furnaces.

Sales declined during the year, as did bookings, and the order backlog was reduced by $6,745,000 to $4,780,000 at year end. This situation was general throughout the steel castings industry and is related to the reduction of activity in the Canadian economy, particularly the mining industry. Signs of improvement in the rate of bookings were indicated late in the year.

Capital expenditures in 1977 will be $380,000 including $100,000 for environmental control improvements.

	1976	1975*	Change
Sales Revenue	$11,323,000	$14,517,000	-22%
Capital Expenditures	$ 714,000	$ 80,000	

* Fahralloy Canada for comparison purposes.

MANAGEMENT:
D.C. Branch, General Superintendent
J.B. Burke, General Sales Manager

PLANT LOCATION:
Orillia, Ontario

Centrifugal Casting

P.G. Askew, Vice-President

The Centrifugal Casting Division has assumed the activities formerly carried out by Fahralloy-Wisconsin Limited, including fabrication and the machine shop.

Steel castings produced by vertical and horizontal centrifugal methods are sold as individual items or as the

major part of fabricated assemblies to industries such as chemical, petrochemical, nuclear reactor, and steel.

Sales in 1976 were well below the previous year and the backlog of order bookings diminished from $5,407,000 to $2,643,000. This reflected the slow-down in capital expansion in Canada.

1977 capital expenditures will be $135,000. No projects of major size are planned.

	1976	1975*	Change
Sales Revenue	$6,258,000	$8,721,000	-28%
Capital Expenditures	$ 135,000	$ 200,000	

* Fahralloy-Wisconsin full year for comparison purposes.

MANAGEMENT:
R.L. Rumball, General Superintendent
L.M. LePage, General Sales Manager
PLANT LOCATION:
Orillia, Ontario.

The hourly-rated employees at Fahramet, being non-union, are represented by an Employees Advisory Committee which meets regularly with senior management regarding safety, benefits, wage rates, work hours, and environment. In January 1976 an increase in hourly rates was instituted that met Anti-Inflation Board guidelines. Rate and benefit changes agreed upon with the Committee for 1977 have been submitted to the A.I.B. for approval.

Environment

The Company continued to expand environmental control capability in all plants. In total, $171,000 of capital was committed to these projects.

Most of the Industrial Minerals operations are dry-process, thus producing considerable quantities of dust. Open-pit mining lays bare large areas of land that would be a useless scar unless redeveloped. Dust, fumes and noise of foundries must be controlled for the well-being of employees and community residents.

While Indusmin for many years has been coping with these problems satisfactorily, start-up of the silica processing plant at Midland brought the challenge of developing and maintaining especially stringent controls.

Management faced this challenge and, after six years of concentrated effort, we are proud to say that the Midland plant is using environmental control facilities and techniques that are being held up as a model for others in the mining industry. The knowledge thus acquired has also been applied to up-grade control at the Nephton and St. Canut operations and is proving invaluable in controlling the foundry atmosphere at Fahramet.

This gratifying result was achieved because of the commitment and dedication of the managers and engineers involved. The support and assistance of officials of Government agencies that impact on environment were important and have been sincerely appreciated. Environmental control is an on-going and expensive "battle" but Indusmin has the capability and is committed to meet the challenge.

Anti-Inflation Program

Indusmin, and its subsidiary Fahramet, are subject to controls under the regulations of the Anti-Inflation Act. To the best of our knowledge the Company is in compliance with these regulations.

It appears that the controls have had some beneficial effect on reducing inflationary expectations and thereby setting the stage for reduced pressure in the system; however, the general effect on the economy and business activity has been negative, as exemplified by escalating unemployment figures. The time and cost to business and to the Federal and Provincial Governments to continue this program could, in our view, be better spent on stimulating the economy. Restraint in the public sector will be essential if renewed inflation is to be avoided in a post-controls period.

Outlook

Sales of nepheline syenite and silica can be expected to increase but possibly at a lower rate than in 1976. The depressed state of the construction industry in the Toronto/Hamilton region will continue to inhibit aggregates sales. The slow recovery of the economy in Canada is expected to continue several months into 1977 and, as a consequence, castings sales are expected to continue at 1976 levels.

Appreciation

The efforts of all employees in a difficult but successful year are sincerely appreciated. We also thank our shareholders, customers and suppliers for their support and assistance during 1976.

On behalf of the Board of Directors,

C. M. Woodruff

C.M. Woodruff
Executive Vice-President

indusmin limited
(incorporated under the laws of Canada)

Consolidated Statement of Financial Position

December 31, 1976

	1976	1975
Current Assets		
Cash	$ 26,346	$ 23,375
Accounts receivable for products and freight	7,428,471	6,196,813
Inventories (note 2)	8,120,052	4,668,619
Prepaid expenses and other current assets	430,435	313,651
	16,005,304	11,202,458
less		
Current Liabilities		
Bank advances	7,793,323	4,363,336
Accounts payable and accrued charges	3,715,526	2,022,130
Income and mining taxes payable	463,163	1,051,945
Principal payments due within one year on mortgage loans and notes	125,764	176,297
	12,097,776	7,613,708
Working Capital	3,907,528	3,588,750
Mining properties, mining and manufacturing plant and equipment (note 3)	15,129,356	12,850,471
Other mining properties and expenditures thereon — at cost	642,900	642,900
Unamortized deferred development expenditures	488,437	513,139
Investment in unconsolidated subsidiary (note 1)	321,053	321,053
Investment in associated and other companies (note 5)	438,878	438,878
Loans receivable, secured	73,590	84,803
Total assets less current liabilities	21,001,742	18,439,994
Mortgage loans and notes less amounts due within one year	32,662	158,426
Deferred income and mining taxes (note 1)	2,208,900	1,719,500
Minority interest (note 8)	236,000	
	2,477,562	1,877,926
Shareholders' Equity	$18,524,180	$16,562,068
Ownership evidenced by:		
Capital stock (note 7)		
Authorized — 2,000,000 common shares with no par value		
Issued and fully paid — 1,167,901 shares	$10,854,014	$10,854,014
Retained earnings	7,670,166	5,708,054
	$18,524,180	$16,562,068

Approved on behalf of the Board:

J.J. Mather, Director

W.E. Curry, Director

Consolidated Statement of Earnings and Retained Earnings

year ended December 31, 1976

	1976	1975
Sales	$38,831,053	$22,262,616
Cost of products sold	27,175,717	13,946,043
Selling, general and administrative expenses	4,254,963	2,522,976
	31,430,680	16,469,019
Operating profit before providing for the undernoted charges	7,400,373	5,793,597
Depreciation, depletion and development expenditures written off	2,394,636	2,217,573
Operating profit	5,005,737	3,576,024
Interest expense	688,543	298,224
Income from investments (note 5)	(74,329)	(85,973)
	4,391,523	3,363,773
Income and mining taxes (note 1)		
Currently payable	1,034,761	806,300
Deferred	489,400	572,200
	1,524,161	1,378,500
Net income before extraordinary items	2,867,362	1,985,273
Adjustment to reduce the cost of acquisition of subsidiary company to the net book value of the assets acquired		(68,541)
Settlement received in respect of interest related to expropriation proceedings at St. Canut, less income taxes attributable thereto	162,597	
Earnings before minority interest	3,029,959	1,916,732
Minority shareholders' interest in earnings of subsidiary company	20,768	
Net earnings for the year	3,009,191	1,916,732
Retained earnings, beginning of year	5,708,054	4,667,248
	8,717,245	6,583,980
Dividends paid		
On preference shares	101,079	
On common shares	946,000	875,926
Retained earnings, end of year	$ 7,670,166	$ 5,708,054
Earnings per common share		
— before extraordinary item	$2.35	$1.70
— after extraordinary item	2.49	1.64

Auditors' report to the shareholders

We have examined the consolidated statement of financial position of Indusmin Limited and its subsidiary companies as at December 31, 1976 and the consolidated statements of earnings and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of Indusmin Limited and its consolidated subsidiaries as at December 31, 1976 and the results of their operations and the changes in financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

McColl, Turner & Co.

CHARTERED ACCOUNTANTS

Peterborough, Ontario
January 26, 1977

indusmin limited

Consolidated Statement of Changes in Financial Position
year ended December 31, 1976

	1976	1975
Source of funds		
Net earnings for the year	$3,009,191	$1,916,732
Charges against operations which did not require a cash outlay during the year:		
Depreciation, depletion and development expenditures written off	2,394,636	2,217,573
Income and mining taxes deferred (note 1)	489,400	572,200
Minority shareholders' interest in earnings of subsidiary company	20,768	
Disposal of fixed assets		151
	5,913,995	4,706,656
Proceeds from the issue of 20,000 cumulative, redeemable 8.9% preference shares (par value $100.00 each) (note 7)	2,000,000	
Proceeds from the issue of Class A preference shares of subsidiary company (note 8)	236,000	
Notes payable with respect to equipment purchases, less payments thereon		238,757
Principal payments on loans receivable and sundry recoveries	11,213	30,763
	8,161,208	4,976,176
Application of funds		
Expenditures on plant and equipment (net)	4,648,820	1,609,813
Redemption of 20,000 cumulative, redeemable 8.9% preference shares at par value (note 7)	2,000,000	
Purchase of subsidiary company		994,424
Provision for payments on notes and mortgage loans	125,763	176,297
Dividends paid to shareholders		
— on preference shares	101,079	
— on common shares	946,000	875,926
Dividends paid to minority shareholders of subsidiary company on preference shares	20,768	
	7,842,430	3,656,460
Increase in working capital	318,778	1,319,716
Working capital — beginning of year	3,588,750	2,269,034
Working capital — end of year	$3,907,528	$3,588,750

Notes to Consolidated Financial Statements
December 31, 1976

1. Accounting Policies
(a) Consolidation policy

(i) The consolidated financial statements for 1976 reflect the financial position, the results of the operations and the changes in financial position of Indusmin Limited and the subsidiary companies, Fahramet Limited, American Nepheline Corporation and Industrial Minerals Canada Limited (currently, a non-operating company). Fahramet Limited — formerly Fahralloy-Wisconsin Limited — acquired the business of Fahralloy Canada Limited as of January 1, 1976. The comparative figures for 1975 do not include those related to Fahralloy Canada Limited for that year.

(ii) The financial statements of the majority-owned foreign subsidiary company, Klukwan Iron Ore Corporation, have not been consolidated with those of Indusmin Limited. As a matter of corporate policy, the investment in the shares of this company is carried at cost. Indusmin Limited owns 95.6% of the issued Class A shares representing a voting interest of 93.6% and a 70.5% interest in the earnings of Klukwan Iron Ore Corporation. This company owns a large low-grade iron ore deposit in Alaska which is under lease until the year 2036 to United States Steel Corporation or assignee for a minimum annual royalty, currently, of $100,000. The lessee has the right to (a) purchase the deposit for

$10,000,000 less all royalties paid to date — which at December 31, 1976 totalled $987,695, (b) terminate the lease on ninety days' notice. The relevant financial data, expressed in U.S. dollars, is set out below:

	1976		1975	
	Total	Indusmin's share*	Total	Indusmin's share*
Net book value	$395,123	$278,562	$384,853	$271,321
Working capital	219,828	154,979	209,559	147,739
Net income	70,697	49,841	70,145	49,452
Dividends paid	60,388	42,600	80,522	56,800

* based on the 70.5% interest in earnings (1975 - 70.5%) Indusmin Limited has taken into income in 1976, $36,210 being a dividend of U.S. $42,600 less U.S. non-resident tax thereon. The comparable net dividend in 1975 was $48,280.

(b) Translation of foreign currencies

Assets and liabilities in currencies other than Canadian dollars have been translated into Canadian dollars at current rates of exchange at December 31, 1976 except that fixed assets and accumulated depreciation have been translated at the rates prevailing at dates of acquisition. Revenues and expenses in currencies other than Canadian dollars have been translated at the average monthly quoted rates of exchange except that provision for depreciation has been translated at the rates prevailing when the expenditures on related fixed assets were made.

(c) Depletion, depreciation and amortization

The company policy is to provide depletion of aggregate deposits on the basis of ore withdrawn and, commencing in 1971, to amortize the cost of other industrial mineral deposits in equal annual amounts over twenty-five years.

Depreciation is calculated on the straight line basis assuming a useful life of six years for mobile equipment, twenty-five years for manufacturing buildings and twelve years for all other plant and equipment.

Repairs and maintenance are charged to operations or development; betterments and replacements are capitalized. Upon sale or retirement the cost of the assets and the related allowance for depreciation are removed from the accounts and any gains or losses thereon are taken into earnings.

(d) Development and pre-production expenditures

Expenditures on development of ore bodies prior to the commencement of production are deferred in the company's accounts. The amounts so deferred with respect to aggregate deposits are being written off over twelve years on the straight line basis — in the case of the other ore bodies, these expenditures are being amortized on the basis of ore withdrawn as a percentage of estimated ore reserves in the particular deposits.

(e) Income and mining taxes

The company, in accounting for corporate income and mining taxes, uses the deferral method of tax allocation to determine the total taxes applicable to the net earnings of the year. The taxes currently payable in any particular year may vary from the taxes applicable to the earnings of that year by reason of timing differences which arise when expenses recorded in the accounts differ from related amounts claimed in calculating taxable income. As a result of timing differences in 1976, the payment of taxes totalling $489,400 has been deferred to future years.

2. Inventories

	1976	1975
Minerals divisions		
Crude ore and finished products — valued at the lower of average cost and net realizable value	$ 2,094,503	$ 1,794,755
Operating supplies and spare parts — valued at cost.......	1,794,039	1,692,968
Foundry division		
Raw materials — valued at the lower of average cost and replacement value	1,691,533	606,356
Work in progress — valued at the lower of direct cost and net realizable value	2,151,013	574,540
Operating supplies and spare parts — valued at cost.......	388,964	
	$ 8,120,052	$ 4,668,619

3. Mining Properties, Plant and Equipment

	1976	1975
Buildings, plant and equipment, at cost:		
Minerals divisions	$31,935,090	$30,318,573
Foundry division	4,420,375	2,019,257
	36,355,465	32,337,830
Accumulated depreciation	22,587,385	20,328,551
	13,768,080	12,009,279
Mining properties and land, at cost less depletion	1,361,276	841,192
	$15,129,356	$12,850,471

4. Expropriations

On December 17, 1974 the Government of Quebec expropriated a portion of the property owned by Indusmin Limited in the Parishes of St. Benoit, Ste. Scholastique and St. Augustin for highway construction purposes. This is a part of a presently undeveloped orebody which is unrelated to the company's current operations. The government authorities have indicated that this expropriation will be withdrawn and will be replaced by a new expropriation requiring less of the company's property.

5. Investment in Associated and Other Companies

The company's investments are detailed as follows:

	Number of shares	Indicated market value	Cost
Falconbridge Nickel Mines Limited..................	16,759	$594,944	$433,196
Quebec Cobalt and Exploration Limited	43,200	73,420	4,968
Other			714
		$668,364	$438,878

The market values shown above are based upon closing market

prices on December 31, 1976 and, due to the number of shares involved, are not necessarily indicative of the amount that could be realized on sale.

Income from investments	1976	1975
Dividends received		
Falconbridge Nickel Mines Limited	$16,759	$16,759
Klukwan Iron Ore Corporation	43,367	56,800
Interest income from loans and sundry deposits	14,203	12,414
	$74,329	$85,973

6. Acquisition

Indusmin's subsidiary company, Fahramet Limited (formerly Fahralloy-Wisconsin Limited) purchased, as at January 1, 1976, the business of Fahralloy Canada Limited. All assets of Fahralloy Canada Limited (except any amounts receivable from Falconbridge Nickel Mines Limited) were acquired and all liabilities of the vendor (except any liabilities for corporation income taxes) were assumed.

The amount payable for the net assets — $5,800,000 — was financed, in part, by the issue to the vendor of 2,360 Class A 9.6% cumulative redeemable preference shares with a par value of $100.00 each. The remainder — $5,564,000 — was settled from the proceeds of the sale to Indusmin Limited of 55,640 Class B 10.25% cumulative redeemable preference shares with a par value of $100.00 each.

7. Capital Stock

The authorized capital of Indusmin Limited was increased on March 31, 1976 (subject to Supplementary Letters Patent granted as of April 5, 1976) by the addition of 20,000 cumulative, redeemable 8.9% preferred shares with a par value of $100.00 each. The company, on March 31, 1976, allotted 17,640 of these shares and they were issued for cash at par value on April 30, 1976. The remaining 2,360 preference shares were issued for cash and allotted on December 21, 1976. Immediately thereafter the entire issue of 20,000 preferred shares was redeemed at par value with the result that, at December 31, 1976, the authorized capital of the company was limited to two million common shares with no par value — of which 1,167,901 shares have been issued and are fully paid.

Dividends of $101,079 calculated at the rate of 8.9% per annum were paid on the preference shares for the period during which they were outstanding.

8. Minority Interest

The minority interest represents the 2,360 Class A 9.6% cumulative redeemable preference shares (par value $100.00 each) of Fahramet Limited issued to Fahralloy Canada Limited at par value in partial settlement of the assets purchased as outlined in note 6.

9. Lease Obligations

The company in 1970 leased certain mineral property and equipment from Halton Crushed Stone Limited for a ten-year period subject to options to renew in further five-year periods until the year 2008. The property is held under an agreement which provides for an annual rental of $90,000, a participation in profits and a royalty on products sold.

The company has under lease from Government of Canada until November 13, 1994 the property near St. Canut on which a silica deposit and related manufacturing and processing facilities are located. This lease, which is subject to certain renewal privileges, provides for an annual rental of $20,000.

10. Retirement Plans

The company and the subsidiary company, Fahramet Limited, maintain retirement plans providing retirement, death and termination benefits for all salaried employees. The plans have been amended from time to time and, based upon the most recent actuarial evaluation, such amendments have resulted in unfunded obligations having a present value of $1,092,524 at December 31, 1976 which have not been provided for in the company's accounts and for which the company has no legal obligation. However, the company intends to fund these obligations through annual payments over the next fourteen years.

11. Directors and Senior Officers

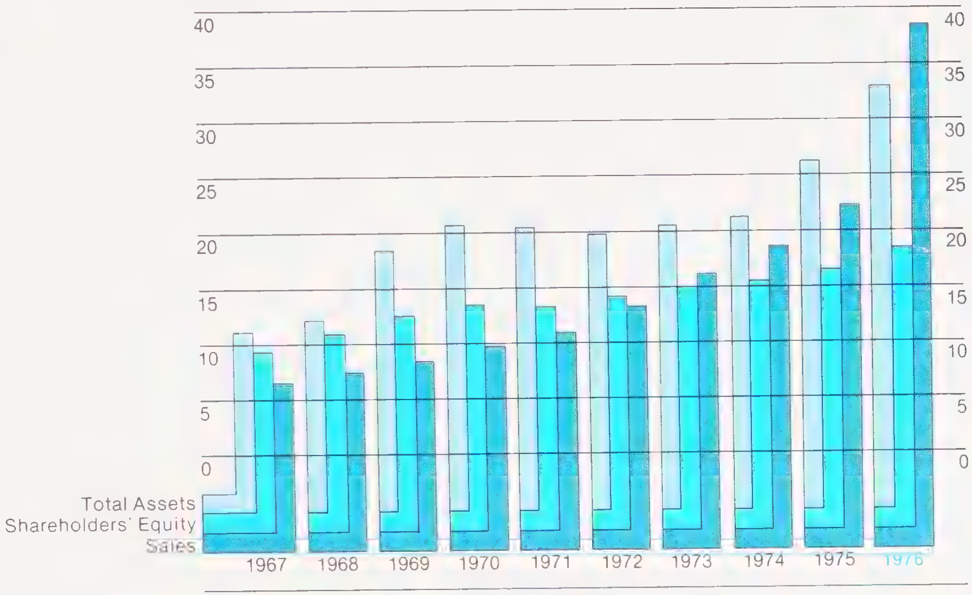
The company has seven directors who receive aggregate remuneration as directors of $22,500. Five of these directors were also directors of the subsidiary company, Fahramet Limited, receiving a total of $500 for their services as directors. Indusmin Limited has eight officers and senior managers whose remuneration in 1976 totalled $271,632. Two of these officers and senior managers were also officers or senior managers of Fahramet Limited, their remuneration aggregating $61,845 from that company.

12. Anti-Inflation Legislation

Effective October 14, 1975 the Federal Government passed the Anti-Inflation Act and subsequently issued Regulations which are presently scheduled to be in force until December 31, 1978. Under this legislation, the company and its subsidiary, Fahramet Limited, are subject to mandatory compliance with controls on prices, profit margins, employee compensation and shareholder dividends. Dividends to the shareholders of Indusmin Limited during the twelve months' period ending October 13, 1977 may not exceed $0.81 per common share.

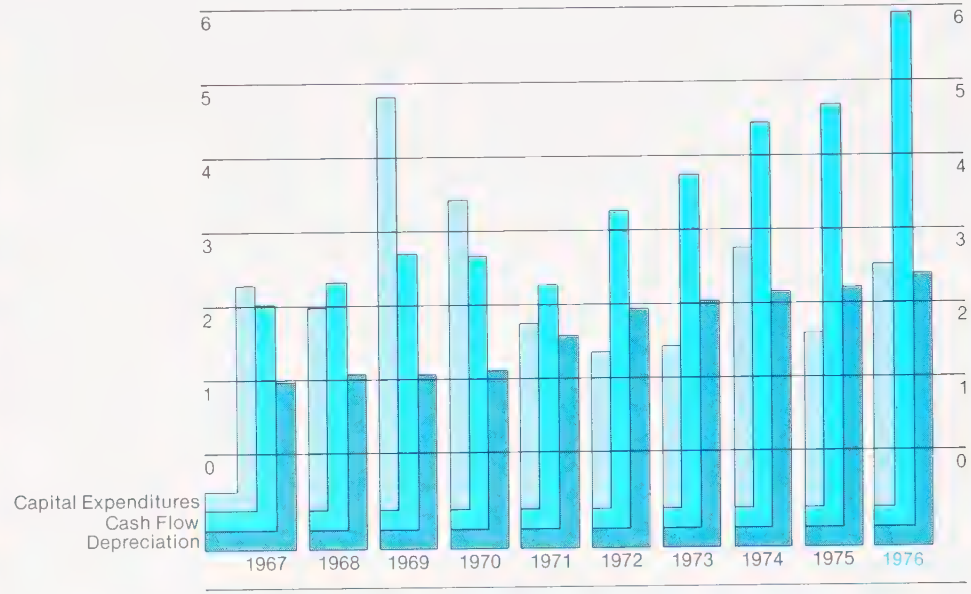
Total Assets, Shareholders' Equity, Sales

Millions of $



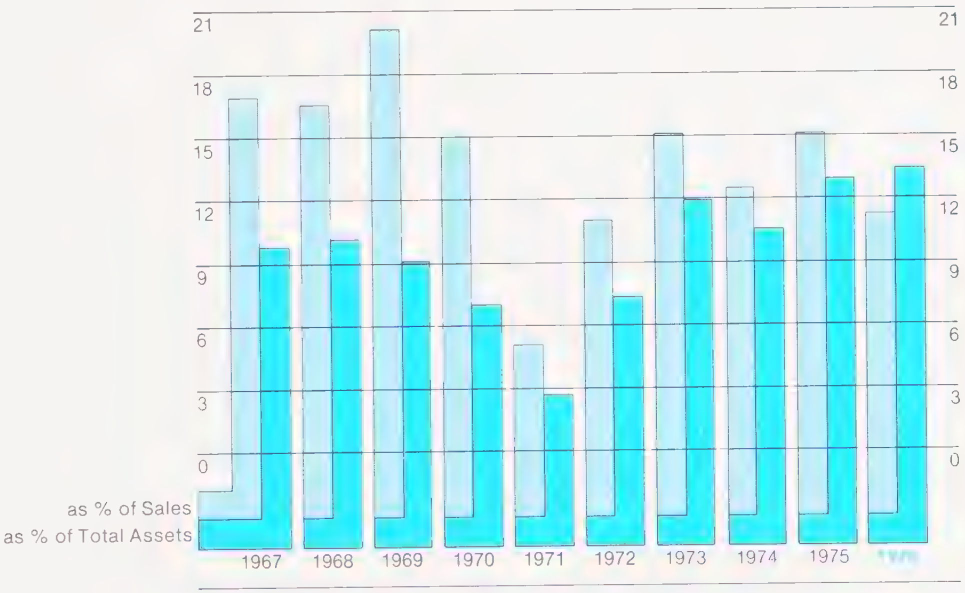
Capital Expenditures, Cash Flow, Depreciation

Millions of $



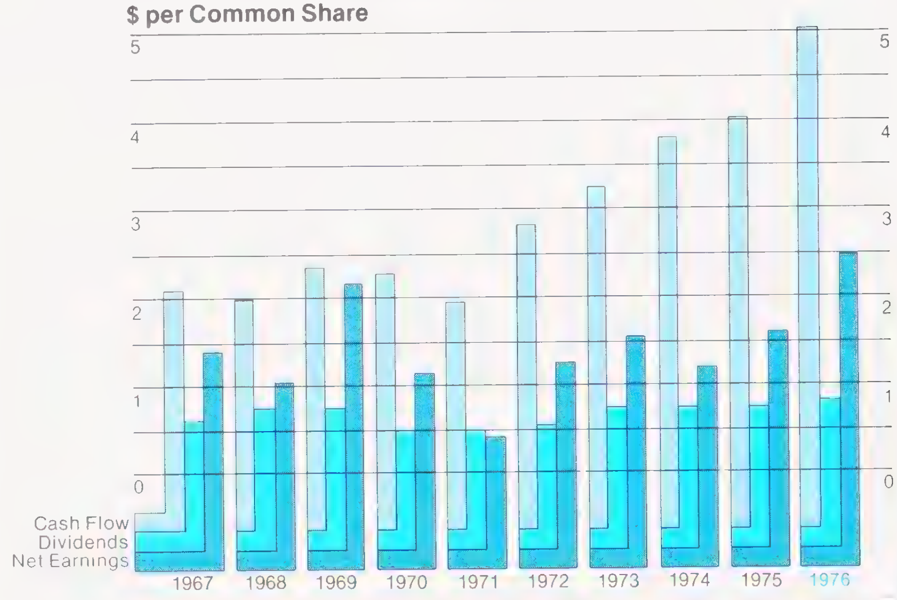
Income Before Taxes

Per Cent



Cash Flow, Dividends, Net Earnings

$ per Common Share



Statistical Summary
(Dollars in 000's except amounts per share)

	1976	1975	1974	1973	1972	1971	1970	1969	1968	1967
Operating results										
Sales	$38,831	$22,263	$17,863	$16,145	$13,221	$10,947	$ 9,736	$ 8,220	$ 7,379	$ 6,532
Operating profit —	5,006	3,576	2,459	2,515	1,674	855	1,724	1,555	1,190	1,045
— % of sales	12.9%	16.1%	13.8%	15.6%	12.7%	7.8%	17.7%	18.9%	16.1%	16.0%
Interest expense	689	298	314	274	298	375	366	112	—	—
Other income	74	86	84	198	76	77	91	224	34	56
Income before taxes	4,391	3,364	2,229	2,439	1,452	557	1,449	1,667	1,224	1,101
Income and mining taxes	1,524	1,379	963	763	432	139	627	695	537	298
Minority interest	21									
Net income —	2,846	1,985	1,266	1,676	1,020	418	822	972	687	803
— % of sales	7.3%	8.9%	7.1%	10.4%	7.7%	3.8%	8.4%	11.8%	9.3%	12.3%
— per share	$ 2.35	$ 1.70	$ 1.08	$ 1.44	$ .87	$ .36	$ .70	$ .83	$ .59	$ .83
Extraordinary item	163	(68)	130	160	442	41	483	1,537	526	526
Net earnings —	3,009	1,917	1,396	1,836	1,462	459	1,305	2,509	1,213	1,329
— per share	$ 2.49	$ 1.64	$ 1.20	$ 1.57	$ 1.25	$ .39	$ 1.12	$ 2.15	$ 1.04	$ 1.38
Capital & mine development expenditures	4,649	1,609	2,800	1,439	1,335	1,798	3,450	4,862	1,971	2,284
Depreciation, amortization & depletion	2,395	2,218	2,178	2,060	1,911	1,588	1,142	1,064	1,100	984
Cash flow from operations	5,914	4,707	4,437	3,777	3,266	2,262	2,668	2,707	2,318	2,018
Financial position										
Working capital (deficit)	3,908	3,589	2,269	1,637	(844)	(2,132)	(1,983)	(629)	2,604	1,568
Net plant & equipment	15,129	12,850	12,121	11,331	11,778	12,342	12,386	10,695	6,925	7,176
Total assets	33,100	26,054	21,206	20,454	19,935	20,437	20,601	18,403	12,171	11,221
Shareholders' equity	18,524	16,562	15,521	15,001	14,041	13,222	13,346	12,625	10,992	9,539
% Return on shareholders' equity	16.2%	11.6%	9.0%	12.2%	10.4%	3.5%	9.8%	19.9%	11.0%	13.9%
Dividends										
Common — paid	946	876	876	876	642	584	584	876	825	550
— per share	$ .81	$ .75	$ .75	$ .75	$ .55	$ .50	$ .50	$ .75	$ .75	$ .60
Common shares outstanding 31st December	1,167,901	1,167,901	1,167,901	1,167,901	1,167,901	1,167,901	1,167,901	1,167,901	1,167,901	965,497

NOTES: (1) The figures for 1973 and prior years have been restated to reflect the effect of the following:
(a) the settlement of the St. Canut Expropriation (1973 and prior years to 1969)
(b) the tax effect of the new mine status for Quebec Silica (1972 and 1973)
(c) the adoption of the tax allocation basis of accounting for income and mining taxes (1970 and prior years)
(d) the inclusion in the income statement of items which were previously shown in the statement of retained earnings (1970 and prior years)

(2) 1967 reflects the merger of Acton Limestone Quarries Limited with Indusmin Limited.
(3) 1968 reflects the merger of Q.M.I. Minerals Limited with Indusmin Limited.
(4) 1975 reflects the acquisition of Fahralloy-Wisconsin on July 1, 1975.
(5) 1976 reflects the purchase of the business of Fahralloy Canada Limited on January 1, 1976.

indusmin limited

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Senior Associate
American Gas Association

† E.L. Healy — Toronto, Ontario
Director
Falconbridge Nickel Mines Limited

* J.D. Krane — Toronto, Ontario
Director Corporate Affairs
Falconbridge Nickel Mines Limited

† J.J. Mather — Toronto, Ontario
Group Vice-President
Falconbridge Nickel Mines Limited

* R.E. Paré — Montreal, Quebec
Executive

C.M. Woodruff — Toronto, Ontario
Executive Vice-President

* Members of the Audit Committee
† Members of the Executive Committee

Officers & Corporate Management

Indusmin Limited

J.J. Mather — President & Managing Director
D.D. Anderson — Secretary
N.H. Witherell — Treasurer
C.M. Woodruff — Executive Vice-President
R. Lavertu — Vice-President
Industrial Minerals Division
J.L. Caylor — Vice-President
Construction Materials Division
G.E. Dale — Vice-President Finance
D.B. Dawkins — Vice-President
Corporate Development
G.A. Jackson — Controller

Fahramet Limited

J.J. Mather — Chairman of the Board
C.M. Woodruff — President
N.A. Dobbie — Executive Vice-President
K. Ogris — Vice-President
Sand Casting Division
P.G. Askew — Vice-President
Centrifugal Casting Division
S.B. Goss — General Manager Finance
R.E. McCarthy — General Manager
Operations Services
C.G. Campbell — General Manager
Product Development & Engineering

indusmin limited

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Peterborough, Ontario K9H 3J6

Solicitors
Strathy, Archibald, Seagram and Cole,
Suite 1700 - 110 Yonge Street
Toronto, Ontario M5C 1T7

Subsidiaries

Fahramet Limited
Orillia, Ontario L3V 6L6
wholly-owned

Fahramet produces steel castings by sand, shell, and centrifugal moulding methods.

American Nepheline Corporation
P.O. Box 14445
Columbus, Ohio 43213
wholly-owned

This corporation provides technical and engineering services to Indusmin's customers and sales agencies in the United States.

Klukwan Iron Ore Corporation
Suite 201, 311 Franklin Street
Juneau, Alaska 99801
93% voting interest
70% interest in profits

Klukwan owns a large low-grade iron ore deposit in Alaska which is under lease until the year 2036 to United States Steel Corporation or assignee.

Printed in Canada